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RUEHAK/AMEMBASSY ANKARA 2042  
RUEHBUL/AMEMBASSY KABUL 0317  
RUEHNE/AMEMBASSY NEW DELHI 0447  
RUEHAST/USOFFICE ALMATY

UNCLAS SECTION 01 OF 02 ASTANA 001074

SIPDIS

DEPT FOR SCA/CEN (O'MARA)  
DEPT PASS TO OPIC - BALLINGER  
DEPT PASS TO TDA FOR STEIN, EXIM FOR GLAZER  
DEPT PASS TO AID - EE-PHILLIPS/RUSHING  
TREASURY FOR OASIA/VELTRI  
USDOC FOR 4231/ITA/MAC/MLONDON, 4201/BISNIS  
USDOC FOR 6110/ITA/TD/BI/RHALPERN  
ANKARA FOR CFC

SIPDIS

E.O. 12958: N/A  
TAGS: ECON ENRD ENRG EPET EFIN KZ  
SUBJECT: KAZAKHSTAN ECONOMIC AND ENERGY UPDATE,  
April 1 - 14, 2007

ASTANA 00001074 001.2 OF 002

¶1. Summary: This information is drawn primarily from the Kazakhstani local press, and has not been checked for accuracy. The opinions and policies expressed in this report are those of the authors, not the U.S. Government.

-- Nazarbayev Meets Lord Mayor of London  
-- 30 Leading Corporations to Modernize Economy  
-- Finance Ministry's Press Release on Negotiations with IRS  
-- Economic Statistics  
-- KMG Sells 50% of KazGerMunay to Subsidiary  
-- Kazakhstan Eyes Stake in Burgas-Alexandroupolis Project  
-- Kazakhstan to Increase Uranium Supplies to Japan  
-- Oil & Gas Production, Q1 2007

Nazarbayev Meets Lord Mayor of London

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¶2. On March 30, President Nazarbayev met in Astana with Lord Mayor of the City of London John Stuttard. According to Stuttard, the two countries' comparative advantages --Kazakhstan's natural resources and Great Britain's experience in developing financial markets, services, and education -- should be pooled to bring about fruitful partnership and cooperation. Currently, seven Kazakhstani companies are listed on the London Stock Exchange (LSE), and nine others trade their securities on the LSE's Alternative Investment Market (AIM). (Interfax-Kazakhstan, April 2)

30 Leading Corporations to Modernize Economy

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¶3. In an April 9 interview, President Nazarbayev said that in order to diversify the economy, the Government of Kazakhstan will choose the 30 best Kazakhstan-based companies. These corporate leaders are expected to develop new industries, making the economy more competitive and globally integrated. The recently created

Commission on Economic Modernization would facilitate these companies' efforts. (President's Press-Service, April 10)

Finance Ministry's Press Release on Negotiations with IRS

¶4. The Finance Ministry issued on April 4 a press release about the late-March negotiations between the Ministry's Tax Committee and a high-level IRS delegation. The press release notes that the meetings were the first mutual agreement process negotiations in the history of Kazakhstan. The press release further states that the talks focused on the issue of double-taxation of the U.S.-based Parker Drilling Company. According to the press release, the Kazakhstani side declared at the meetings' conclusion that its position -- that the income in question was earned and subject to tax in Kazakhstan -- remains unchanged. (Interfax-Kazakhstan, April 5)

Economic Statistics

¶5. According to a statement released by the National Bank, Kazakhstan's 2006 current account deficit was \$1.797 billion, up from \$1.056 billion in 2005, a 70% increase. According to the National Bank Chairman Anvar Saidenov, the large increase is a result of the foreign worker legalization campaign: starting in 2006, wages paid to illegal migrants were included in the current account. (Interfax-Kazakhstan, April 3)

¶6. In January-March 2007, the total trade volume at Kazakhstan's financial exchanges, the Kazakhstani Stock Exchange (KSE) and the special trading floor of the Regional Financial Center of Almaty (RFCA), amounted to 8,342.3 trillion tenge (about \$66.8 billion), a 140% increase over the same period of 2006. While most of the trade volume was in the currency market, trade in securities has increased significantly. Over the same period last year, trade in stocks (at

ASTANA 00001074 002.2 OF 002

\$793.5 million) increased 180%; in corporate bonds (at \$1.1 billion) 25%; and in government debt (at \$2.0 billion) 100%. (Interfax-Kazakhstan, April 5)

KMG Sells 50% of KazGerMunay to Subsidiary

¶7. On April 12, the shareholders of national oil and gas company KazMunayGas (KMG) subsidiary KMG Exploration & Production (KMG E&P) have approved the purchase of a 50% share in KazGerMunay, owned by the parent company, for KZT 133.3 billion (about \$1.1 billion). The purchase will be paid from the company's own funds. After the purchase, KMG E&P will become Kazakhstan's second largest oil producer (behind TengizChevrOil). In late July last year KMG acquired a 50% share in KazGerMunay from RWE Dea AG, EEG - Erdgas Erdol GmbH and the International Financial Corporation. KMG E&P's partner in the joint venture is PetroKazakhstan. (Interfax - Kazakhstan, April 12)

Kazakhstan Eyes Stake in Burgas-Alexandroupolis Project

¶8. Kazakhstan seeks a stake in the Burgas-Alexandroupolis oil pipeline project, Kazakhstani Energy Minister Izmukhambetov told the press in Baku on April 4. According to the Minister, a tentative understanding has been reached in which Kazakhstan will get part of Greece and Bulgaria's combined 49% stake in the project. Izmukhambetov added that, given the launch of the Burgas-Alexandroupolis project, it is necessary to speed up a decision on expansion of the Caspian Pipeline Consortium pipeline. (Interfax - Kazakhstan, April 9)

Kazakhstan to Increase Uranium Supplies to Japan

¶9. Kazakhstan's national atomic company KazAtomProm (KAP) will capture over 40% of Japan's nuclear fuel market by 2010, with plans

to deliver approximately 4,000 tons of uranium per annum, KAP President Dzhakishev said at a briefing on April 14 in Almaty. Currently KAP supplies 3-4% of Japan's uranium needs. According to the KAP President, these plans will become possible after the company signs a series of documents during a visit of Japanese officials and companies to Astana on April 29-30. Some Kazakhstani-Russian joint ventures, specifically one for uranium enrichment, would be involved in supplying Japan's market, Mr. Dzhakishev revealed. (Interfax - Kazakhstan, April 16)

Oil & Gas Production, Q1 2007

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¶10. In January-March Kazakhstan produced 16.6 million tons of oil and gas condensate, 10.8% higher than during the same period in 2006, according to the GOK reports. Of the 16.6 million tons, national oil and gas company KazMunayGas (KMG) produced 2.3 million tons of oil and gas condensate, while other companies with KMG participation produced 6.3 million tons of oil. The TengizChevrOil joint venture was the largest producer, with 3.6 million tons during the period. (Interfax - Kazakhstan, April 9)

¶11. In January-March Kazakhstan produced 7.3 billion cubic meters of gas, 17.8% higher than the first quarter of 2006, the GOK reported. (Interfax - Kazakhstan, April 9)

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